BRITISH COLUMBIA
FERRY CORPORATION

2001/2002

Performance Plan

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2001/02 PERFORMANCE PLAN

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I. INTRODUCTION

A. Overview

The British Columbia Ferry Corporation's (BC Ferries) service area stretches from Prince Rupert in the north to Victoria in the south. Within this varied geography, the Corporation provides service on 25 regular routes and 11 contracted routes, with sailing times ranging from 10 minutes to 15 hours using a range of vessels –the smallest, a passenger-only service with a two-person crew and capacity for 10 people to the largest, the Spirit-class with a carrying capacity for 2,100 people, 470 vehicles and a crew of 55. BC Ferries transports an average of 60,000 passengers and 900 commercial vehicles on more than 500 sailings per day. The system carried 21.4 million customers in 2000/01 making it an integral part of the Province's transportation network.

BC Ferries is one of the three largest ferry companies in the world. Its services are supported by 40 vessels, 47 terminals (comprising 67 berths), 4 maintenance yards, one refit complex and head office. In fiscal year 2001/02, the system generated $390.6 million in revenue, employing capital assets with a replacement value of $2.8 billion, not including land.

In addition to ferry transportation, BC Ferries provides food and beverage services with total annual sales of $43 million. Eighteen gift shops throughout the Corporation and three terminal newsstands generate an additional $12 million in annual revenue. Parking and reservations generate $7.1 million in revenue. These different segments of the business illustrate the multi-faceted nature of the Corporation.

In March 2000, the Province approved the refinancing of BC Ferries. This announcement provided the foundation of financial stability for the Corporation, which in turn, has allowed the Corporation to continue to provide stability for ferry service, to provide stability for fares, and contribute to the stability of coastal economies. Under this framework, BC Ferries has a target to achieve a break-even result or better in each year of operation.

As a result of the refinancing, BC Ferries has been able to focus on planning services over the longer term. Programs to improve service that have been implemented since the Province's refinancing of the Corporation include the introduction of White Spot on the Spirit-class vessels, a program to upgrade passenger accommodation on specific vessels, recommendations to improve the reservation system, and extensive public consultation processes in specific areas including Mill Bay, Horseshoe Bay, Westview terminal in Powell River, and Bowen Island.

In addition to program development, fiscal year 2000/01 provided BC Ferries with the opportunity to set a longer term direction for the Corporation. This work will ensure BC Ferries remains in a sound financial position with a fleet of effective, well maintained vessels and terminals and a capable motivated workforce; and with a focus on customer care and environmental stewardship. From a revenue perspective, tariffs will be increased at a rate no greater than inflation and the current tax subsidy agreement will support the growth requirements of the coastal communities.

B. Mission

AT BC FERRIES WE ARE COMMITTED TO SATISFYING CUSTOMER AND COMMUNITY NEEDS FOR A SAFE, RELIABLE AND SUSTAINABLE FERRY SERVICE.

WE STRIVE TO BUILD ON OUR TRADITION OF EXCELLENCE IN FERRY SERVICE, ONE IN WHICH EMPLOYEES AND CITIZENS TAKE GREAT PRIDE.

II. PERFORMANCE PLAN – 2001/02

A. Operating Overview

1. Year over Year Budget

The Board of Directors approved the following 2001/2002 operating budget (with the 2000/2001 budget comparative) on December 15, 2000.

	01/02	00/01
	(expressed in millions)	
Operating Revenues	389.8	382.8
Operating Expenses		
Wages and salaries	237.2	238.9
Fuel	56.1	49.8
Repairs & maintenance	34.4	34.0
Other operating costs	81.2	81.2
	408.9	403.9
Surplus (deficit) before interest and amortization	(19.1)	(21.1)
Net financing expense	2.1	2.0
Amortization	50.0	53.3
Loss of Subsidiary – CFI		6.0
Deficit before provincial contribution	(71.2)	(82.4)
Motor fuel tax	73.7	72.3
Surplus (deficit) for year	2.5	(10.1)

2. Revenues

Revenue is projected to be $389.8 million, comprised of $300.1 million generated from tolls, $67.0 million generated from catering and other revenue, and $22.7 million from the federal operating contract. The Provincial Motor Fuel tax is projected to increase to $73.7 million.

This revenue budget is $8.4 million more than the 2000/01 revenue budget, primarily as a result of the increases in gross catering and toll revenue and as detailed below.

	2001/02 Budget	**2000/01 Budget**	**Change**
	($ millions)		
Tariff Revenue	300.1	296.2	3.9
Gross Catering Revenue	57.1	55.3	1.8
Other Revenues	9.9	9.2	0.7
Federal Contract	22.7	22.2	0.5
TOTAL	**389.8**	**382.8**	**7.0**
Motor Fuel Tax	73.7	72.3	1.4
Total Revenues	**463.5**	**455.1**	**8.4**

3. Expenditures

Operating, amortization and financing expenses total $461.0 million.

The 2001/2002 operating expenditure budget represents a $4.9 million increase over the prior year's budget. It consists of the following increases:

	$ Millions
Increase in the price of fuel	9.7
Annualized cost of implementing the collective agreement	4.4
Contingency for excluded economic increase Nov. 1, 2001	0.4
Increase in cost of goods sold	0.8
Increase in information systems materials & maintenance	0.8
Increase in engineering & technical oversight costs	0.6
Increase in vessel refit & maintenance costs	0.8
Increase in training expenses	0.5
Increase in safety & rehabilitation initiatives	0.8
Addition of Hartley Bay subsidy	0.4
Total Increase in Operating Expenditures	*19.2*

Offset by the following decreases:

	$ Millions
Decrease in the quantity of fuel consumed	3.4
Decrease in employer's Superannuation contributions	4.3
Relief from the Provincial Corporate Capital Tax	2.7
Decreased administrative expenses	1.9
Miscellaneous efficiencies & reductions	2.0
Total Decrease in Operating Expenditures	*14.3*
Net Increase in Operating Expenditures	**4.9**

4. Government Contributions

a) The Federal Contract Agreement

The Agreement is indexed to the Vancouver CPI. For the 2001/02 fiscal year, the amount to be provided to BC Ferries is projected to be $22.7 million.

b) The Motor Fuel Tax Contribution

For the 2001/02 fiscal year, the Provincial contribution from Motor Fuel Tax is expected to increase by $1.4 million, from $72.3 million to $73.7 million. The Ministry of Finance and Corporate Relations provides the forecast for 2001/02.

5. Traffic Forecast

Over the past two years, traffic has remained relatively static with no real growth or decline. For the next year, BC Ferries is again projecting relatively stable traffic levels. Overall, vehicle traffic is forecasted to decline -0.1% and passenger traffic is projected to decrease by -0.4%.

For the mainland routes vehicle traffic is forecast to decrease by -0.6% while passenger traffic is forecast to decline by -0.6%. The Inter-Island vehicle traffic is projected to increase by 0.7% overall while passenger traffic is expected to decrease by -0.1%.

6. Three Year Projection

BRITISH COLUMBIA FERRY CORPORATION
INCOME STATEMENT PROJECTION
($ millions)

	Budget 2000/01	Forecast	Projected 2001/02	Projected 2002/03	Projected 2003/04
OPERATING REVENUES:					
Tariff	296.2	291.4	300.1	306.5	314.6
Gross Catering Income	55.3	57.4	57.1	58.2	59.5
Other Income	9.2	9.8	9.9	10.9	12.6
Federal Operating Contract	22.2	22.4	22.7	23.0	23.3
	382.8	381.0	389.8	398.5	410.0
OPERATING EXPENSES:					
Wages and Salaries	238.9	226.4	237.5	238.5	242.3
Fuel	49.8	54.7	56.1	53.4	53.4
Repairs and Maintenance	36.4	33.9	34.5	35.2	34.9
Cost of Catering Goods Sold	20.8	21.6	21.6	22.0	22.5
Materials and Supplies	23.7	23.0	24.6	24.1	23.7
Other expenses	32.4	31.1	32.1	32.9	33.3
Contingency	1.9	0.0	2.5	2.5	2.5
	404.0	390.8	408.9	408.5	412.7
INCOME/(LOSS) BEFORE INTEREST & AMORTIZATION:	**(21.1)**	**(9.8)**	**(19.1)**	**(10.0)**	**(2.7)**
Net Financing Expense	2.0	1.1	2.1	0.3	0.3
Amortization	59.3	51.3	50.0	55.5	61.5
INCOME/(LOSS) BEFORE PROVINCIAL CONTRIBUTION:	**(82.4)**	**(62.2)**	**(71.2)**	**(65.7)**	**(64.5)**
Motor Fuel Tax	72.3	72.0	73.7	75.6	77.8
INCOME/(LOSS) AFTER PROVINCIAL CONTRIBUTION:	**(10.1)**	**9.8**	**2.5**	**9.9**	**13.3**

CUMULATIVE INCOME/(LOSS):		**2.5**	**12.3**	**25.7**
CAPITAL EXPENDITURES:	**71.6**	**89.2**	**93.1**	**150.1**
Net Debt (exclude leases):	**13.3**	**52.8**	**0.0**	**41.9**
NET DEBT (include leases):	**34.7**	**71.5**	**15.8**	**54.5**

NOTE: Fiscal 2002/03 anticipates an average tariff increase equal to 75% of inflation.

B. Service Plan

1. Service Over the Next Year

BC Ferries is an integral part of British Columbia's coastal transportation system. The ferries link Vancouver Island and the mainland, numerous coastal communities to either Vancouver Island or the mainland, and Prince Rupert on the Province's north coast, to the Queen Charlotte Islands, Port Hardy and ports along the central coast.

This level of ferry service generates about $300 million in toll revenue from the carriage of 21.4 million passengers and 7.9 million vehicles. In addition to toll revenue, $63 million in revenue is derived from food services, parking and retail sales.

BC Ferries service plans are a balance of affordability with the sometimes competing interests of customers, stakeholders, employees, marine operations and environmental regulations. The service framework recognizes that all of these interests are important and seeks to address them in the development of service plans and vessel specifications and in the allocation of operating and capital funds.

For the most part, the levels of traffic on each route determine the level of service provided by BC Ferries. Given that the vessels providing the service are costly to build, have pre-determined vehicle and passenger capacity, and have long life cycles (40 years), BC Ferries does not have the ability to alter service on short notice. Therefore, it is imperative that long term planning is completed in order that the Corporation meet future traffic requirements with appropriate vessels and within a sustainable financial framework.

One of the largest challenges facing the Corporation is the seasonality of demand. During most of the year – from September through to June - customers are generally able to connect with their sailing without delays. This is not the case during the peak summer months, where it is not unusual for a customer to encounter a one sailing wait. Although vessel utilization is high during the summer months, BC Ferries vessel utilization levels are only about 50% – this means that, on average throughout the year, the vessels are half full. For the most part, there is little difference in the cost base to sail a vessel with one vehicle aboard or with 400 vehicles aboard.

The Corporation achieved its highest levels of traffic (8.3 million vehicles and 22.5 million passengers) in 1996. This peak in traffic was not sustained; traffic declined in 1997 and continued to decline in the following years. Over the past two years and in fiscal 2000, vehicle traffic has remained static at about 7.9 million units and passenger traffic at about 21.4 million.

Projected traffic in year one of this plan is expected to remain relatively constant – no growth or decline. The Corporation's service plan, therefore, will also remain relatively stable with few changes expected to either the level of service or the capital assets providing the service. Notwithstanding that the quantity of service will not change, BC Ferries is looking at qualitative changes to the service offerings. Changes will be made to enhance the customer/traveler's experience.

BC Ferries' customers are diverse, with each traveler having his or her own reasons for using the ferries. These various market segments include the tourism market, the commercial sector, commuters and those who use the ferry on an infrequent basis for personal use. These market segments each have different expectations for ferry service and delivery.

Over the past two years, BC Ferries has been gaining more knowledge about our customers through broader market research. This work will continue through the implementation of a more comprehensive market research program to facilitate a greater understanding of customers and their wants and needs. This knowledge allows the Corporation to improve the customer's experience by aligning business processes around the customer's wants and needs and by providing the necessary tools and systems to support employees in the provision of high quality service delivery. This work will increase customer satisfaction, develop loyalty and improve revenue.

However, some customer service issues, such as summer and holiday line-ups, are extremely costly to eliminate and cannot be done within the Corporation's financial framework. Notwithstanding this, BC Ferries will work to improve a customer's access to information and the ability to reserve space on board which will assist travelers in making informed travel decisions during the peak periods. In addition, BC Ferries will move in a direction that gives the customer a greater voice in the design and delivery of services. These steps will improve service quality at all times of the year.

In year one of this plan and into the following three years, all changes to service levels will be undertaken to address the following three priorities. :

- Replacement of obsolete infrastructure,
- Plan for future demand, and,
- Improve the customer experience.

The service offered by BC Ferries recognizes the unique role the ferry service plays in the economic well being and development of the coastal communities and places new emphasis on the importance the customer's voice in developing sustainable, responsive services. In year one, the service BC Ferries provides will include the following changes:

a) Major Routes

The major routes comprise service between Vancouver Island and the Mainland. The toll revenue associated with this segment of the business totals $238.9 million for 1999/00.

Service schedules are not expected to change in the next fiscal year with the exception of Route 2. In year one of the plan, Route 2 (Nanaimo to Horseshoe Bay) will deploy the PacifiCats as relief vessels during off-peak periods. Until these high-speed ferries are sold, BC Ferries will continue to operate the PacifiCats on a part-time basis between Horseshoe Bay and Nanaimo.

Two of the major route terminals will begin modifications in the next fiscal year in order to address the three priorities identified above. The upgrades planned for Horseshoe Bay and Departure Bay include:

Horseshoe Bay Terminal Upgrade - BC Ferries' improvement of the Horseshoe Bay terminal is proceeding in order to address a number of concerns. Initially, safety issues were raised regarding the traffic backups on the Upper Levels highway, poor traffic flow, as well as the lack of parking in the Horseshoe Bay area. In addition to these concerns, BC Ferries identified areas for improvement that align with the long term needs for the Corporation:

- Replacement of obsolete infrastructure. As stated above, there are a number of concerns relating to the terminal at Horseshoe Bay including the safety issues related to traffic back ups. Currently, BC Ferries spends over $500,000 each year to control traffic along the highway. This cost will be eliminated in all but extraordinary situations,

- Plan for future demand. The proposed improvement to Horseshoe Bay will create less of a barrier (due to traffic congestion) in accessing the Horseshoe Bay community now and into the future, and,
- Improve the customer experience. The customer experience will be improved in the creation of a safer, more efficient terminal, with access to washrooms and services within Horseshoe Bay village.

As of April 2001, all planning and initial design phases are complete. Detailed design is completed or on schedule for all aspects of the project. Contracts have been awarded for the parkade, roadworks and electrical upgrades; a contract for the terminal administration building will be awarded in April 2001. Substantive construction on the parkade and holding compound will commence in late-April 2001. The project will be completed by December 2002.

Departure Bay terminal Upgrade – As with the Horseshoe Bay, changes to Departure Bay are proceeding in order to align with BC Ferries' long term direction in improving the customer experience, planning for future demand and upgrading obsolete infrastructure.

The terminal improvements include moving the administration building 100 metres to the south to expand the ticketed holding compound. Currently the ticketed holding compound holds approximately 490 cars and the pre-ticketed holding compound holds about 200 cars. This project will see the ticketed compound expanded to 640 cars and the pre-ticketed compound reduced by about 100 cars. The total increase to both holding compounds is about 50 cars. Expanding the compound will assist traffic queuing on Stewart Avenue, and will improve the efficiency of the terminal operations.

Signage and customer information will be improved at both the Horseshoe Bay and Departure Bay terminals.

Queen of Coquitlam – The Queen of Coquitlam operates on Route 2 (Horseshoe Bay – Departure Bay). As part of the upgrading of infrastructure and improving the customer experience, a mid-life renovation will be made to the Queen of Coquitlam.

This upgrade will serve as the prototype for five other vessels scheduled for mid-life refit over the next three years.

The Queen of Coquitlam is expected to remain in service for the next 17 years, and market research indicates the renovation of the passenger accommodations will improve on-board sales. Construction is expected to begin in February 2002.

Revenue generated from passenger upgrades and branded partners can be anticipated to achieve $400,000 to $600,000 per year in incremental revenue.

b) Minor Routes

Minor routes are defined as service to smaller Island communities. The associated toll revenue for this segment of the business totals $39.5 million.

The scope of the service plan for the Minor Routes encompasses a total of 18 inter-island routes served by 24 vessels. Depending on the size of the Island community, the ferry's services can be the main transportation link that provides access to schools, medical facilities and shopping.

Similar to the major routes, service on the minor routes over the next year will remain relatively stable. The exceptions are Route 12 and Route 17 and upgrades to the Westview Terminal.

Route 12 (Brentwood Bay – Mill Bay) - This route is the only BC Ferry route with an alternative major highway. During the 2000/01 fiscal year, BC Ferries undertook a consultation process to determine the future of the Mill Bay Ferry. After extensive public consultation, continuation of the route for the next 10 years was announced.

In order to keep the route operational for the next 10 years, terminal reconstruction and vessel improvements are required. Therefore, ferry service from Brentwood Bay to Mill Bay will be suspended from June 4 to 28, 2001 to rebuild the 50-year-old docks and repair the 44-year-old MV Mill Bay.

In addition to the capital requirements, it was concluded that a more concerted marketing program would assist in the utilisation rate. BC Ferries and local stakeholders have established a Task Force to develop and implement a marketing plan for the Mill Bay Ferry in year one. The Corporation has set a target to achieve a 4% growth in traffic.

Route 17 (Comox – Powell River) – Again, changes to the service schedule on Route 17 align with the Corporation's long term direction to improve the customer experience. The Queen of Burnaby recently replaced the retiring Queen of Sidney. The Queen of Burnaby will provide greater vehicle and passenger capacity and has improved customer amenities.

Westview Terminal - Powell River – Over the next year, Westview Terminal will be upgraded and expanded. This decision follows an extensive consultation process to address the deteriorating marine structures and traffic queuing problems on the municipal roads.

This redevelopment will improve the customer services. The $6.5 million upgrade will provide economic opportunities for Powell River by assisting in the community's waterfront redevelopment project. The project will result in a longer life for the Westview terminal and will benefit both ferry users and the residents of Powell River.

New Ferry for Bowen Island – Over the past year, BC Ferries has held extensive public consultation with the Bowen Island Advisory Committee to review and comment on the design and requirements of a new 110 car ferry for Route 8 (Horseshoe Bay – Bowen Island). The vessel currently operating on Route 8, the Queen of Capilano, cannot meet traffic demand during the peak summer period. The new vessel will alleviate the congestion and provide capacity for longer term growth. Based on the hull design of the Skeena Queen, this vessel will provide improved interior accommodations as compared with the Skeena and is consistent with the Corporation's objective of improving the customer experience.

The Queen of Capilano will be moved to Route 7 (Earl's Cove – Saltery Bay) allowing for the retirement of the Queen of Chilliwack and replacing the Queen of Tsawwassen.

In year one, BC Ferries will issue an RFP (Request for Proposal). This vessel is expected to be delivered 10-12 months after award of contract, currently planned for June 2001.

c) Mid and North Coast Routes

There are three main routes provided by BC Ferries to the North and Mid-Coast of the Province. These are the Inside Passage – Route 10 (Port Hardy – Prince Rupert), Route 11 (Prince Rupert – Queen Charlotte Islands) and

the Discovery Coast – Route 40 (Port Hardy – Mid-Coast). The toll revenue for this segment of the business totaled $13.9 million in 1999/00.

For the regions currently receiving ferry service, service levels will remain unchanged except for the Northern routes. Three over-riding issues have dictated the need for a re-evaluation of the north and mid coast service and include aging infrastructure, the inter-relationships between northern economic development, tourism and BC Ferries' north and mid coast service, and the under-performance of Route 40.

Route 40 was initiated in 1996 and, at that time, revenue and cost projections estimated that the route would be financially sustainable within a three year period. In retrospect, the projections were optimistic, particularly with respect to traffic growth. Consequently, the route has not achieved its target and, in fact, the Route 40 financial performance continues to perform below expectations.

In order to address the Route 40 performance, however , the entire north and mid coast service must be addressed. The north and mid coast routes function as a system, with vessels assigned to multiple routes in order to provide service in an efficient and cost-effective manner. This route inter-dependency has dictated the need for development of a comprehensive regional strategy that attempts to satisfy community and customer needs as well as providing an overall financially and operationally feasible solution for BC Ferries.

Public consultation is in process to address this inter-dependency with the objective of meeting the needs of all parties. The present proposal assumes that service on Route 10 (Port Hardy – Prince Rupert) will be increased from seven to nine sailings each week during the peak season. Route 11 (Prince Rupert - Queen Charlotte Islands) will have a reduced frequency of service in the summer, moving from six round trips per week to five. Although frequency will be reduced, overall capacity is expected to increase due to a proposed larger vessel size. As well, one round trip per week will be re-deployed from Route 11 to Route 10, during the peak season. Primarily though, the focus of the new proposal and public consultation will be to substantially alter the Route 40 service. Two options were recently distributed to the mid-coast communities that propose similar levels of service as is provided today. Although service will be operated five days a

week rather than seven days a week, similar frequencies will be maintained by using a faster vessel, such as the Queen of Prince Rupert.

Public consultation will also consider other service options including a link connecting Port Hardy with Vancouver (via Tsawwassen). BC Ferries' long term direction of the Northern services include the following:

- Replacement of obsolete infrastructure. The vessels servicing the North are all scheduled to be upgraded and/or replaced in the next three years.
- Plan for future demand by working with local communities. Servicing the mid-coast provides a greater economic opportunity for the local communities who, given the decline in fishing and forestry, are looking to tourism, eco-tourism and fish farming to improve their economies, and,
- Improve the customer experience by providing a more comfortable travel experience. This will attract new markets (increasing the number of passengers) and will increase revenues.

In year one, BC Ferries will complete the following changes:

Queen of the North - In Spring 2001, the Queen of the North renovation will be completed. The vessel has undergone a complete renewal of the interior accommodations with improvements to the cafeteria and buffet areas, seating and lounge areas – all to improve the customer experience once on board in order to expand the markets and improve revenues.

On April 14 2001, the Queen of the North was re-integrated into the northern service. The additional passenger revenue in year one is expected to be $250,000.

Queen of Prince Rupert – Using the Queen of the North experience, BC Ferries will determine whether similar passenger accommodation upgrades should be completed on the Queen of Prince Rupert.

The Queen of Prince Rupert must first undergo a detailed condition survey in May 2001, in order to determine the life expectancy of the vessel. The objective is to ascertain the least life-cycle cost with the analysis concluding as to whether to upgrade the Queen of Prince Rupert or to replace the vessel with a second hand cruise ferry.

Public Consultation Initiative – BC Ferries will continue to consult with the north and mid-coast stakeholders regarding the proposed service changes.

d) Services to Small Coastal Communities

BC Ferries provides a subsidy to contractors operating in more remote areas. Due to the isolation of these sites and the lack of road access, ferry service is critical to these communities. The ferry operator retains all revenues generated.

During the end of the fiscal year 2000/01, a new contracted ferry service was initiated between Prince Rupert and the communities of Metlakatla, Kitkatla, Oona River and Hartley Bay. This service brought the total number of BC Ferries' subsidized contracted services to eleven.

BC Ferries will continue to support basic transportation services for remote coastal communities.

The only expected change to these routes is on the Prince Rupert - Kincolith service. A road is currently being constructed to Kincolith as part of the Nisga' Treaty Agreement. Once the road is completed, the Agreement calls for the discontinuation of the ferry subsidy.

2. Service Over the Next Three Years

BC Ferries plays a vital role in the well being of communities and commercial enterprises throughout coastal BC. BC Ferries service links more that 30 West Coast communities ranging from the Greater Vancouver gateway with a resident population of 1.9 million, to the remote communities of Bella Bella, Klemtu, Ocean Falls and Bella Coola, with a combined population of less that 5,000. The diverse nature of the customers and the communities served demands a complex and unique service response. Each route, therefore, has characteristics unique to the communities being served.

BC Ferries, generally, provides a satisfactory level of service to coastal communities. Thus, BC Ferries' service plan over the longer term will look very similar to today's service plan. Over the next three years, cumulative fleet-wide traffic is projected to increase by 3.1% for vehicles and by 2.4% for passengers. This level of traffic growth will be accommodated by the existing service levels and existing levels of personnel.

The Corporation's service plan, therefore, will remain relatively stable with no real changes to the quantity of service. However, as identified in the first

year, the Corporation will continue to expand qualitative changes particularly with respect to enhancing the customer experience, upgrading obsolete infrastructure and planning to accommodate growth over the long term. The anticipated changes include the following:

Horseshoe Bay Terminal – The upgrade to the Horseshoe Bay terminal will continue. It is expected that the project will be completed by December 2002.

Queen of Prince Rupert - Over the Spring and Summer 2001, BC Ferries will determine whether passenger accommodation upgrades similar to the work performed on the Queen of the North should be completed on the Queen of Prince Rupert. Decisions as to whether to upgrade the vessel or note will be determined in year one.

In the following years, work will either begin on upgrading the vessel similar to the upgrades completed on the Queen of the North or commencing with the replacement of the vessel with a second hand cruise ferry

Queen of Coquitlam – In year one, the Queen of Coquitlam (operating on between Horseshoe Bay and Departure Bay) will undergo a mid-life renovation on the interior accommodations that will be the prototype for five other vessels scheduled for mid-life refit.

Over the next three years the following vessels will undergo similar upgrades: Queen of Alberni, Queen of Oak Bay, Queen of Cowichan, Queen of Surrey and Queen of New Westminster.

As stated in year one, revenue generated from these upgrades is anticipated to achieve $400,000 to $600,000 per year, per ship, in incremental revenue.

Queen of Chilliwack - The Queen of Chilliwack is scheduled to be retired in 2003. Once the new 110 car ferry is completed and operating between Bowen Island and Horseshoe Bay and the Queen of Capilano is moved Route 7 (Earl's Cove – Saltery Bay), then the Queen of Chilliwack will be retired.

BC Ferries expects to purchase a second hand vessel on the international market to replace the Queen of Chilliwack.

In year one, BC Ferries will examine the international market for a replacement vessel. Once purchased, it is expected that the planning and

upgrading of this replacement vessel will take another year to complete in order to meet Canadian standards.

Completion of the 110 Car Ferry – Work that begins in 2001, will be completed in the 2002/03 fiscal year and a newly constructed 110 car ferry will be introduced onto Route 8 (Horseshoe Bay - Bowen Island).

The 110 car ferry will replace the Queen of Capilano, the vessel currently operating on Route 8. The decision to replace the Queen of Capilano is part of the overall retirements and replacement strategy in line with the Corporation's capital plan. The Queen of Capilano cannot meet traffic demand during the peak summer period so the new vessel will alleviate the congestion and provide capacity for longer term growth.

The Queen of Capilano will be transferred to Route 7 (Earl's Cove to Saltery Bay) retiring the Queen of Chilliwack and replacing the Queen of Tsawwassen currently scheduled on that route. Both of the current vessels operating on Route 7 have higher operating costs and are less efficient than the Capilano. The replacement of these vessels will allow the Corporation to operate more efficiently.

Expanding the Northern Service - In addition to the vessel upgrades and replacements anticipated on the Northern Services, BC Ferries is contemplating the introduction of a new service leg between Port Hardy and Vancouver (Tsawwassen). This would facilitate direct access to Port Hardy and introduce new travel opportunities to the customer. It will also allow BC Ferries to expand into new markets which will improve revenues and will assist tourism on the northern Island, mid coast and Prince Rupert area.

C. Other Components of the Service Plan – Years 1-3

1. Improving the Customer Experience

As stated earlier, BC Ferries' long term direction will address qualitative changes to its service by moving to a more customer-centric approach. This focus will be to adopt initiatives that improve the customer/traveler's experience. The rationale for moving to a customer-focused orientation is based on the relationship between increased profitability, customer satisfaction and employee satisfaction.

In the past, BC Ferries focused on the business of moving ships between various ports. A customer focused organisation will change this philosophy to one of supporting coastal economies and meeting the needs of customers and stakeholders.

Improving the customer experience requires an in-depth understanding of customers, aligning business processes around the customer and providing the necessary tools and systems to support employees in the provision of high quality service delivery.

During the 2001/02 fiscal year, BC Ferries will begin the implementation of a customer focused approach through the following programs:

a) Setting the Stage

Market Research - Market research is instrumental in identifying who is using the ferry services. By researching our customers, the Corporation can better understand the priorities of our customers and, therefore, adapt to meet customer needs.

Over the next year, BC Ferries will change and improve its research program to define key market segments based on demographics, usage and attitude attributes. This information will be instrumental in allowing BC Ferries to better understand its customers and their travel needs.

In future, all service design initiatives will incorporate customer research and customer service standards and will include a mechanism to collect customer satisfaction ratings.

b) Providing Information

As part of determining customers' wants and needs, current market research indicates that BC Ferries must provide better and more timely information to our customers. This will be done in the following ways:

Information Delivery and Wayfinding Signage Program –signage before and at the terminals needs upgrading. In year one, BC Ferries will work to establish a consistent directional signage and messaging standard for the Corporation in order to improve operating efficiencies and customer information.

Web Page Upgrades – Technology is a key component of any customer focused strategy. It supports management and front line employees in their efforts to deliver sustained high quality service by providing customers with the information they require to make informed decisions.

When the BC Ferries Web page was introduced in 1995, original content included general information, schedules etc. Since that time, the site content has evolved to include wide ranging information from enhanced travel planning tools, news releases, annual reports and discussion papers as well as the initiation of internet reservations.

Over the next year, BC Ferries will renew the site by contracting a design and business specialist to guide the Corporation in a comprehensive rebuild of www.bcferries.com. The objective is to provide on-line users with access to a full range of services.

c) Building to Meet Customer Needs

Passenger Accommodation Upgrades on Identified Vessels - BC Ferries' long term planning contemplates vessel replacements, vessel upgrades and terminal upgrades. The capital investment in these projects is significant. In order to meet customer expectations, current market research will be incorporated into the designs of these planned upgrades and replacements.

Changes that will be targeted over the next year include improving reservations, upgrading food and retail services, and improving passenger accommodations. The Queen of the North upgrade was the first example of this approach.

Similarly, renovations to interior accommodations will be undertaken on the Queen of Coquitlam operating on Route 2 (Horseshoe Bay – Departure Bay). The work completed on the Queen of Coquitlam will be used as the prototype to upgrade five other vessels. Revenue generated from these upgrades is anticipated to achieve $400,000 to $600,000 per year, per ship, in incremental revenue.

d) Working with Employees

Training –The Corporation's objectives to improve the customer's travel experience will be supported by a range of training activities targeted for management, supervisory and front-line staff.

Develop a Service Recovery Model – Currently, BC Ferries has no service recovery program in place to address customer's needs and concerns in the day to day operating environment.

In year one, BC Ferries will develop and implement a program to ensure a consistent application for effective service delivery of products and services. A training program will be implemented to assist employees in delivering services and information to set standards in order to improve the customer's experience.

2. Customers, Communities and Regional Economies

a) Stakeholder Consultation

Since 1993, BC Ferries has consulted with ferry dependent communities on a variety of issues.

Following an independent review of our public consultation activities in 2000, BC Ferries hired a public consultation professional to direct efforts in this important area of customer and stakeholder satisfaction. BC Ferries' consultation program will focus on three areas– local route based committees, a system-wide Coastal Council, and interest-based consultation.

In 2001, 12 route based Ferry Advisory Committees will be re-established in cooperation with local government. This will include two new advisory committees for the Sunshine Coast and Saltspring Island. They will advise BC Ferries on local service plans and schedules. As well, the Coastal Council to BC Ferries, made up of two representatives from each local ferry advisory committee, will continue to advise the corporation on non-local, interdependent issues. In addition, BC Ferries will initiate meetings with

organizations such as the British Columbia Truckers Association, Tourism British Columbia, and others, to ensure our services continue to meet the needs of these and other very important sectors of our economy.

b) Supporting Regional Economies

BC Ferries offers a transportation infrastructure to meet the needs of its customers and the communities it serves. On-going planning and analysis in the development of capital and operating plans will include consideration of regional economies and their relationship to ferry services.

3. Food Services

The food experience is directly linked to the larger BC Ferries' travel experience and all efforts to enhance the variety and quality of food provided on board the vessel is expected to result in increased customer satisfaction, retention and business overall. Improvement to food services quality and profitability will be a priority for management attention and capital allocation.

White Spot- In June of 2000, BC Ferries and White Spot signed a five-year contract following a successful trial onboard the Spirit class vessels. Burger sales on the Spirits have increased by 60 per cent with the White Spot initiative. This level of demand and the revenue potential has led the Corporation to expand the program to other major-route vessels.

For 2001/02, BC Ferries will expand the White Spot program to the Queen of Saanich (a relief vessel operating on Route 1), and the Queen of Oak Bay and Queen of Cowichan (operating on Route 2 between Horseshoe Bay and Nanaimo).

4. Reservations

Reservations have been available to customers on Route 9 (Tsawwassen – Southern Gulf Islands) and Route 10 (Prince Rupert – Queen Charlotte Islands) since the 1960's. However, major route reservations were introduced in 1997 as part of the customer's demand for greater certainty.

For a $15 fee, customers are able to make passenger vehicle reservation on sailings between Vancouver Island and the Lower Mainland. In 2000, about 190,000 reservations were booked on major routes. In the past three years, demand for the service has more than tripled.

In January 2001, BC Ferries released a detailed report on reservations and announced the corporation will not significantly change the current reservation system but that improvements will be made. The improvements support the long-term direction of the Corporation in providing a convenient service for customers, which improves the customer's experience and improves the corporation's financial performance.

Over the next year, BC Ferries will concentrate on improving customer access to reservations, changing policies to make reservations more flexible and will move towards increasing reservable capacity on Major Routes. By increasing reservable space, BC Ferries is expected to increase revenue by $500,000 per annum.

5. Regulatory, Environmental and Safety Initiatives

a) Regulatory Initiatives

BC Ferries' operations are subject to numerous regulations and safety codes at the federal, provincial and international level. Over the 2001/02 fiscal year, BC Ferries will continue to work with regulatory bodies to ensure BC Ferries continues to meet all safety requirements.

b) International Safety Management

In support of its ongoing commitment to safety, BC Ferries voluntarily adopted (in 1996) the International Safety Management Code of the International Maritime Organization for the safe operation of ships and for pollution prevention. In 1997, the Corporation received certification for the Safety Management System and a Document of Compliance from Lloyds Register. Under this program, internal ISM Lead Auditors inspect and audit the ISM-related activities of all vessels and shore establishments at least once annually. These audits ensure the Corporation meets proper safety requirements. The Document of Compliance is also audited annually by the external auditors.

In Fiscal 2001/02, the BC Ferries' ISM Auditors will again audit all vessels and ISM relevant offices throughout the corporation. External Lloyds Register verification audits will be carried out on seven vessels. In addition, the annual Document of Compliance audit will be carried out in late October or early November.

c) Environmental Initiatives

For the long term, BC Ferries has developed its first comprehensive environmental strategy that reflects the continuously changing environmental landscape and the corporation's commitment to the environment.

Within the next three years, significant reductions will be made on the extent to which ferry operations impact the aquatic environment. Reductions will also be achieved in air emissions and in the Corporation's impact on land.

In the 2001/02 fiscal year, the following work will be completed:

- Water – BC Ferries will continue with the sewage treatment upgrade systems for selected vessels and terminals. Systems that exceed all current treatment requirements will be installed in one terminal and on five vessels. Further, the detailed implementation plan for remainder of the sewage treatment upgrade program will be completed.

  Commencing with the fourth quarter report for fiscal 2001/02, the Corporation will be in a position to quantitatively report the degree to which an acceptable level of treatment is being given to the sewage produced on our vessels and on our shore-based facilities. In subsequent years, BC Ferries will be able to demonstrate that its sewage treatment systems not only meet or exceed established regulations, but that overall improvements in sewage quality are being achieved.

- Land – BC Ferries will develop and/or update a number of policies and procedures to ensure environmental issues are addressed in any new build/upgrade project within the Capital Program.

  In fiscal 2001/02 and in order to reduce its environmental footprint, BC Ferries will undertake a complete pollution prevention review of all of its major waste streams. This review will enable the Corporation to define opportunities to reduce solid waste in particular and therefore the amount of materials headed towards landfills. Tackling purchasing policies, suppliers, improved recycling, recycling of a broader range of materials, etc, will reduce waste. This study will be completed by October 2001. Implementation of the recommendations should commence in early 2002.

- Air – BC Ferries will look at the availability of low sulphur diesel fuel and explore where the Corporation should target the use this fuel.

In addition, BC Ferries will examine current operational practices with the objective of reducing fuel consumption without impacting operating schedules and safety.

In addition to these specific programs, and working within the context of the Corporation's Safety Management System, internal environmental audits will be undertaken of each vessel and shore facility to assess compliance with the Corporation's Environmental Management Program. The requirement is that 95% of all vessels and all terminals be audited and completed each fiscal year and that no vessel or location is missed two years in a row. Areas, such as Deas Dock, are audited at least twice each year.

d) Occupational Safety and Health (OSH)

In February 2001, a joint union-management committee presented a plan for improvement of the OSH functions to the Executive. The need for a review of the program was prompted primarily due to the fact that injury frequency and injury severity were trending upwards. A team comprising the union, employees, managers and a consultant developed a plan of action to reverse this trend.

Over the next year, BC Ferries will begin the implementation of the plan. The priority will be to concentrate on a small number of "breakthrough" projects. The focus will be to place responsibility for safety to the front line where previously the lines of responsibility were unclear. In addition, BC Ferries will provide resources, information and training to assist employees in improving work practices.

In year one, a target for reducing injury frequency and severity is 10%.

D. Improving Financial Performance

1. Pricing Strategy

BC Ferries generates approximately $300 million in annual tariff revenue from the carriage of 21.4 million passengers and 7.9 million vehicles – this represents more than 75% of the Corporation's revenue. However, the basis for setting fares is often unclear because, in the past, historical inequities were inherent in the tariff.

In the 2000/01 fiscal year, BC Ferries began to address the inequities in the tariff and completed the first phase of a tariff rationalization process – the implementation of a distanced-based tariff.

Tariff rationalization was initiated due to the complexities and inconsistencies of the existing tariff structure. BC Ferries has adopted a clearly defined set of principles on which to base both an equitable tariff structure and minimize the level of price increases over time. This approach is intended to assure tariff equity for customers and solvency for the Corporation.

Due to the myriad of issues accompanying any changes to the tariff, rationalization is proceeding in stages. Each stage of the tariff review will involve public consultation in order to gain perspectives on the emerging issues and potential resolutions. It is also anticipated that any changes to the tariff will be phased in over time in order to avoid "rate shock".

The complete tariff review is expected to take several years to implement. A four phased approach is envisaged and is described below:

a) A Four Phased Approach:

Route Pricing: - common measure	Program Pricing - discounts, seniors, etc.	Spatial Pricing: - vehicle types	Seasonal Pricing Demand Management:

Phase 1: Route Pricing:

The development of a system-wide tariff structure that is based on a consistent formula. This process began in fiscal 2000/01.

Phase 2: Program Pricing:

The development of a rational structure for prepaid discount tickets, seniors and other discount fares.

Phase 3: Spatial Pricing:

Rationalizing the pricing for all vehicle types.

Phase 4: Seasonal Pricing:

The establishment of a pricing mechanism to both optimize ridership and revenue on an annual basis.

Over the next three years, BC Ferries will continue researching and consultation with key stakeholder groups. During the Spring and into the Fall 2002, public discussion will focus on Phase 2 – Program Pricing with a decision anticipated into fiscal 2002/03.

2. Capital Plan and Asset Management

BC Ferries' will focus on replacing and upgrading aging infrastructure with an emphasis on alternatives that improve efficiency, reduce life-cycle costs, minimize environmental impacts and improve customer service. The objective of the Corporation's long term capital plan and management of the asset base is to ensure the continuation of a safe, reliable ferry service.

To achieve this requires that BC Ferries maintain, upgrade and replace aging assets in a manner that will ensure the service will not be disrupted due to deterioration of the ships and/or terminals, while functioning within a sustainable financial framework.

That said, the Corporation's capital stock has many challenges including:

- Vessels are in a disproportionately aged condition with 18 vessels having less than 15 years of their service life remaining.
- Terminal marine structures are in a disproportionately aged condition where three quarters of all marine structures are beyond the midway point of their economic lives.
- Information Technology systems infrastructure are disproportionately aged, generally at or near obsolescence.
- Alternatively, three quarters of terminal shore structures are in the first half of their economic lives.

In 1999, BC Ferries completed an initiative to assess the condition of 24 of our older vessels. The purpose of these surveys was to assess the condition of these vessels and to estimate the costs to upgrade them to ensure reliable performance for 10 years. These surveys identified maintenance plans for

the vessels over the ten year term. This identified maintenance has been incorporated into the Corporation's refit, operating and capital budgets.

In 2000, three more detailed surveys were completed on three V-Class vessels in order to provide the more specific information needed to assess remaining vessel life and potential for life extension. Third party naval architects and marine surveyors completed this work. This detailed survey work led the Corporation to conclude that it must commence replacement of its oldest (V-Class vessels) within 2 years (that is, commencing in Fiscal 2003/04).

Beginning in fiscal 2001/02, the Corporation will establish an ongoing Vessel Condition Assessment Program such that each vessel undergoes a condition assessment at specified times in its service life. This combination of surveys will allow BC Ferries to:

- assess and re-assess vessel condition and remaining service life;
- periodically audit the effectiveness of maintenance and refit strategies;
- define the changes to maintenance, refit and capital upgrade programs needed to ensure the asset reaches its expected economic life; and
- determine the cost-effectiveness of any proposed vessel life extension.

3. Business Processes and Systems Upgrades

Over the past two years, BC Ferries has identified a number of systems and business processes, that, if upgraded, would assist managers in their ability to manage the financial component of their departments. BC Ferries is undertaking to upgrade systems and update business processes to improve manager's ability to report problems and opportunities, thereby improving the Corporation's efficiency and ability to plan.

a) Project Management

Success of the Corporation's long term capital plan within the context of the financial framework dictates that the associated capital projects be managed with considerable rigor, discipline and consistency with best project management practices.

Accurate financial reporting of project status will be achieved through introduction of the Oracle Financial software package and, more specifically, the Oracle Project Accounting (OPA) module. Project Management software will be integrated with OPA and its usage mandated

in all projects. Perhaps more significantly, the Corporation's Project Management Guidelines will be thoroughly reviewed and revised in order that they, too, are consistent with best practices.

An extensive project management training program has been initiated and will be continued into Fiscal 2001/02. By October 2001, at least 105 employees will have been trained in basic project management techniques. Another 15 employees who are consistently responsible for significant capital and operating projects will receive advanced project management training.

Project Completion Reports currently include quantitative assessments of the outcome of each project relative to intended scope, planned schedule and approved budget. In 2001/02, these indices will be reviewed and refined such that meaningful corporate measures can be developed and reported.

b) Financial Systems

Over the past fiscal year, BC Ferries has embarked upon a program that will result in the implementation of a new financial and reporting system. As of April 1 2001, the existing Walker core financial system software will be replaced with an up-to-date Oracle Financial software package (FINS).

The purpose of the FINS project is to redefine financial processes and provide better reporting capabilities to ensure that the Corporation's business practices are as cost-effective and streamlined as possible. The new system will provide more timely and useful information, and align the Corporation's financial system with those of other provincial government agencies.

c) Maintenance Management

Previously, BC Ferries had a maintenance management program underway, although the program was not delivering the entire intended and expected benefits. In 2000, BC Ferries began the task of identifying and implementing a new Maintenance Management System.

On April 1 2001, MAXIMO will replace the previous software systems at shore-based maintenance sites and on selected vessels. The system will be placed throughout the rest of the fleet during fiscal 2001/02. The purpose of the project is to implement a common set of methods and controls for maintaining the physical assets of the Corporation, and to give employees the tools, training and information they require to plan and forecast maintenance needs more efficiently.

The users will be employees with responsibilities for maintenance of the corporation's physical assets and/or the requisitioning of goods and services to ensure that the corporation's assets are protected.

A total of 21 positions have been identified as required for implementation of best practices for a successful roll out of the maintenance management system. Of this number, 16 have been re-allocated or have been identified for re-allocation. The balance of 5 FTEs will be funded by the end of the fiscal through the adjustment of staffing plans.

The introduction of this Tier 1 maintenance management system (MAXIMO) will enable the Corporation to achieve best practices in maintenance management, control and reporting. In 2001, the Corporation will thus be able to begin establishing performance measures for preventive, predictive and corrective maintenance, establishing associated benchmarks and performance targets, and assessing the effectiveness of the maintenance program.

This process will begin in Fiscal 2001 by including in the Corporate Measures Report the extent to which the overall maintenance program contributes to, or impacts, the on-time sailing performance for the BC Ferries' fleet.

d) Supply Chain Management

BC Ferries has identified the need for a revised purchasing/inventory system that aligns with industry best practices. It is anticipated that cost savings can be achieved in the area of procurement. Supply Chain Management (SCM) will provide the necessary infrastructure and business processes to ensure the Corporation and employees have the tools to effectively track and manage inventories and the purchase of goods and services.

Fleet-wide implementation of the SCM process will result in improved financial accountability, enhanced maintenance planning and control, and reduced administrative processes that ultimately result in cost savings.

Information and training will be provided to selected employees by April 1, 2001. Thereafter, SCM will be more widely implemented throughout the Corporation.

The effectiveness of SCM will be maximized through integration with FINS and MAX. The three systems have been designed to complement each other and, through their integration, the Corporation is providing employees with greatly improved technology for resource management.

BC Ferries has identified the following savings to be realized on changes to these system upgrades (Oracle Financials, MAXIMO, and Supply Chain Management). In 2002/03 savings total $0.96 million and in 2003/04 savings are projected to be $2.62 million. Over a four-year period, savings are expected to generate $8.4 million per year.

E. Internal Environment

1. Human Resources Strategy

BC Ferries' Human Resource strategy over the long term is to ensure the continued sustainability of the Corporation and its business. The recruitment and retention challenges for a workforce of approximately 4,700 employees are influenced by a number of key factors. These include the following:

- Labour costs represent about 51% of BC Ferries total expenditures in 2000/01,
- BC Ferries' workforce is aging with the average age at 41.3 years and the youngest regular employee being 25. Critical shortages are anticipated in a few key areas including:
  - Licensed officers in both Deck and Engineering are pivotal to BC Ferries' business. On average, BC Ferries' licensed officers are older than, and have longer service records than, the rest of the workforce. For example, within the Master/Chief Officer components – 68% are expected to retire by 2010.
  - Tradespersons – average age of BCFC tradespersons is 47 years with a large number expecting to retire in the next 10 years.
  - Information Technology – competition for systems workers is large and, generally, Public Sector employers have been unable to match the opportunities offered by the private sector due to constrained compensation structures and less flexible work environments.
- Due to the seasonal nature of our business, more that 40% of the employees are casuals – totaling 1,860 employees,
- Employee competence and positive interactions with our customers are a most significant motivator of customer retention.

BC Ferries must manage these issues so that employee morale is addressed and service is maintained within a sustainable financial framework. Managing these issues will require a number of strategies. Over the next three years, BC Ferries will address these issues through the development of the following programs:

a) Return to Work Program

A Return to Work Program at the British Columbia Ferry Corporation has been jointly developed by the Corporation and the BC Ferry & Marine Workers' Union and models disability management best practices.

The reason for the development of the program stem from a number of perspectives:

- A need to effectively manage the costs associated with absenteeism;
- The need to act within the law with respect to disability management and reasonable accommodation; and
- Ensure employee well being and career continuance.

The objective of the program is to accommodate employees who have been on disability leave by assisting them through an early return to work. Key components of the program include:

- Case Management System: a Return-to-Work Facilitator will co-ordinate all aspects of the employee's return to work.
- Return-to-Work options: identify reasonable workplace accommodations to facilitate early returns to work. The employer's duty to accommodate is legislatively mandated.
- Alternative work arrangements during rehabilitation: while return to work programs are designed to meet the specific circumstance of the disabled employee, assistance will include rehabilitation, and where appropriate, transitional work, modified job duties or placement into an alternative occupation.

The Return to Work Program will commence implementation in April 2001. The Corporation's new program will manage health-related absences more efficiently and effectively and provide rehabilitative employment to injured workers. Furthermore, the program will minimize the impacts of disability on employees, their supervisors and the Corporation, while reducing disability payment costs.

b) Workforce Development Accord

As part of the 2000 collective bargaining discussions, BC Ferries and the BC Ferry and Marine Workers' Union agreed to a "Public Sector Accord on the Development of the Workforce of the British Columbia Ferry Corporation'. At the core of the Accord is an agreement to work in partnership to develop strategies about the future of the Corporation's workforce. The parties agreed to a set of principles that underline shared values about the future of the organization and employees' roles in it.

While there are a number of wide-ranging issues of interest, the two most critical issues it will focus on are:

- Identifying options to a current workforce structure that employs 42% of union members as casual status employees; and
- Recommending mechanisms to meet identified succession needs, particularly in highly specialized fields, such as certificated marine officers and trades personnel.

An additional outcome of the Accord process is an opportunity for the Corporation and its Union to engage in an improved model of mutual problem-solving and partnership, as a base for increased effectiveness in dealing with future strategic issues.

2. Training Initiatives

The Corporation operates in a highly regulated and safety-sensitive environment, with considerable ongoing training required for operational personnel. Beyond the traditional ongoing training requirements, a number of training initiatives are being undertaken to ensure the Corporation's business needs of meeting the needs of the communities and customers are

met within a sustainable financial framework. Some of the strategies include:

- A range of training activities targeted for management, supervisory and front-line staff, will support the Corporation's objectives in customer relationship management.
- Programs are being initiated and improved to support the development of licensed marine officers (Deck and Engineering specialists). Succession needs have been identified for these positions, which require many years of education and experience to meet international marine certification requirements.
- Rigor and accountability in business systems and processes is a foundation of the Corporation's commitment to performance. Management and professional skill needs in these areas have had limited training investment in the past, thus sound training programs in managing finances, projects, assets, and people are being introduced. Enhanced recruitment and selection processes will also support these skill requirements.
- Transport Canada regulatory training requirements are changing and increasing in 2002, generating a need for additional certification courses for shipboard staff. Increases and improvements in worker safety training are also required to meet WCB regulatory changes.
- The Corporation is embarking on improvements in union-management relations, and worker health and safety programming. Training activities will be introduced and/or enhanced to support these initiatives.

3. Working With Employees

a) Communicating with Our Employees

Accurate, timely and relevant information is an essential tool for all employees and is the most effective way to align strategic service decisions with the employees who deliver that service to customers.

Over the course of this plan, the goal for Employee Communications is to ensure that all employees, regardless of position or location within the Corporation, are provided with relevant and up-to-date information in a timely manner.

As part of this plan, Intranet-based communication tools are being developed to ensure that all employees are "plugged-in" and have access to the information they need.

b) Industrial Relations

Over the past year, BC Ferries has attempted to improve Union-Management relations by communicating in a more transparent manner. This has resulted in both parties identifying areas of concern leading to the potential of jointly developing solutions in an atmosphere of mutual respect.

Over the next three years, building more effective relationships with the Union will continue to be a priority. Improved relations with the Union will enhance the Corporation's ability to more effectively deliver programs such as improved customer relations.

III. MEASURING OUR SUCCESS

A. Corporate Performance Measures

CORPORATE PERFORMANCE MEASURES REPORT

3 YEAR PROJECTION COMMENCING
2001/02

April 2001

BC FERRIES

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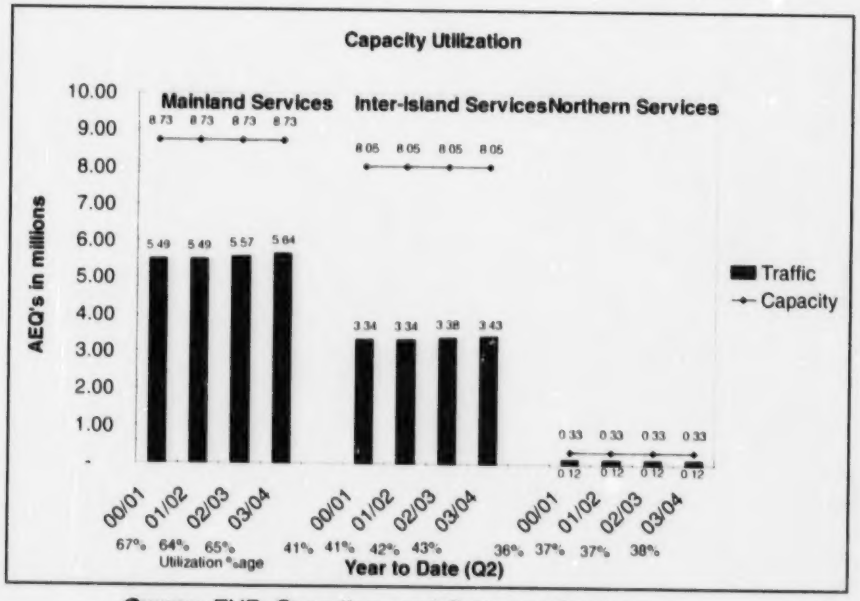
BC FERRIES

1. Productivity Measures

a. Vehicular Traffic Carried/Capacity Utilization

Rationale/Methodology: *To measure vehicular traffic carried (defined as automobile equivalents "AEQs") and measure against vehicular carrying capacity of the operational fleet. This will provide a measure of total vehicle capacity used. Total AEQs carried is divided by AEQ carrying capacity of the operating fleet in each of the three operating segments.*



Owner: *EVP, Operations and Customer Services*

3 Year Projection:

Mainland Services

The same ships will be used on these routes in the next three years while traffic is expected to rise by 1.4% annually in years 2 and 3. The trend shows a slight improvement.

Inter-Island Services

A bigger ship (AEQ 192) was introduced in March 2001 on Route 17 and a larger ship (AEQ 110) will run on Route 8 with an estimated start date of July 2002. The traffic is expected to increase at a rate of 1.3% annually in years 2 and 3. As a result of these changes, the projection of capacity utilization is expected to rise from 2001/02 to 2002/03 and then plateau.

Northern Services

The changes expected for this region include an upgrade of the two main vessels to improve customer service and the possible replacement of the Qn of Chilliwack in year 3. Capacity utilization should remain virtually unchanged due to car deck utilization already being high in peak season.

BC FERRIES

1. Productivity Measures

b.1 Passengers Carried per Operations Employee (FTE)

Rationale/Methodology : *To measure the productive utilization of labour resources.*

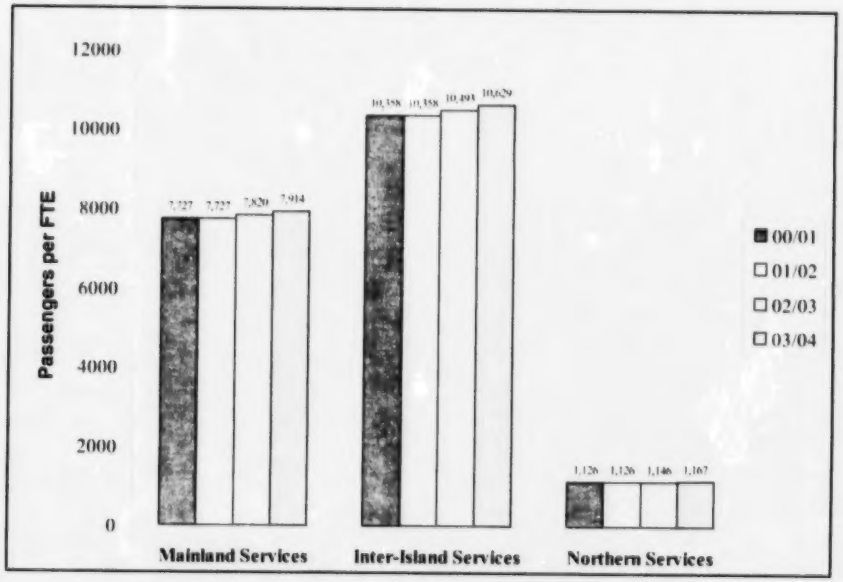
This measure is calculated by dividing the passengers carried by operating FTE's for each of the three operating segments.

3 Year Projection:

It is estimated that there will be flat growth in the first year for MS and IIS while in NS should increase annually by 1.8% (a result of the upgrade to the two northern vessels to improve customer service).

A 1.2% growth in passengers carried in MS and 1.3% for IIS is expected in years 2 and 3. However, no significant change is projected for the number of FTEs for any of the regions.

As a result of these factors, passengers carried per FTE is expected to improve slightly during years 2 and 3 for all three regions.



Owner: *EVP, Operations and Customer Services*

BC FERRIES

1. Productivity Measures

b.2 Vehicles (AEQs) Carried per Operations Employee (FTE)

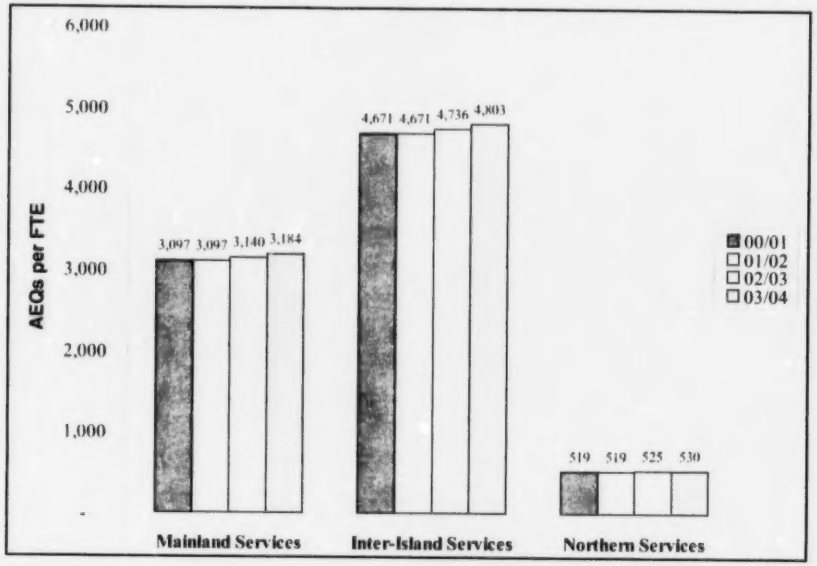
Rationale/Methodology: *To measure the productive utilization of labour resources.*

This measure is calculated by dividing the AEQ's carried by operating FTE's for each of the three operating segments.

3 Year Projection:

It is estimated that there will be flat growth in the first year followed by annual rise in # of vehicles carried in MS and IIS by 1.4% and in NS by 1.1% in years 2 and 3. No significant change is projected for the number of FTEs for any of the regions.

We will improve productivity rates due to traffic growth with no net increase in number of employees. Therefore, vehicles carried per FTE is expected to improve slightly during years 2 and 3 for all three regions.



Owner: *EVP, Operations and Customer Services*

BC FERRIES

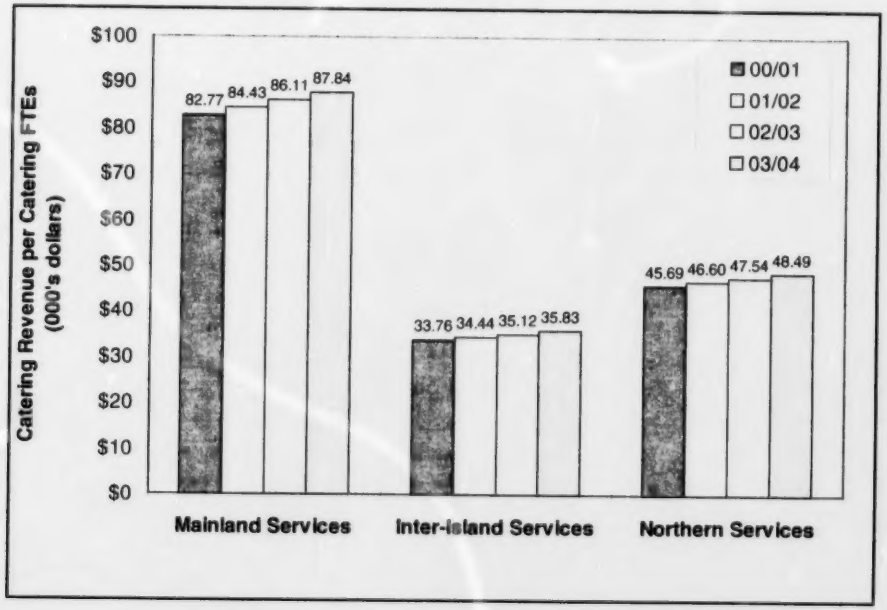
1. Productivity Measures

c. Catering Revenue per Catering Employee (FTE)

Rationale/Methodology: *To measure the effectiveness of management in utilizing labour resources. Total catering revenue does not include tolls, parking and other miscellaneous revenue or subsidies, and excludes cost of goods sold.*

3 Year Projection:

We anticipated a continued upward trend in catering revenue (about 2% a year) as ships' interior outfit rolls out and new initiatives (such as White Spot) are extended to other ships.



Owner: *EVP, Operations and Customer Services*

BC FERRIES

2. Safety Measures

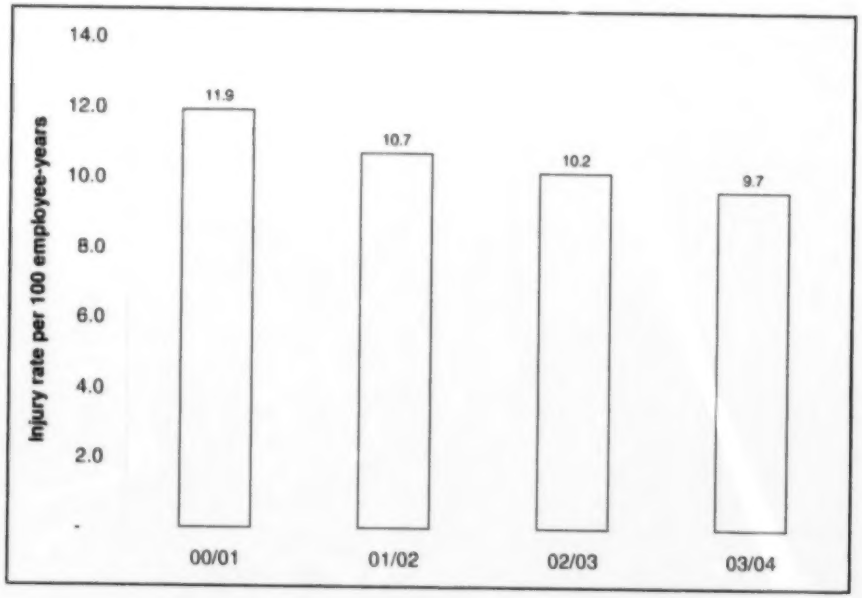
a. Employee Injury Rate

Rationale/Methodology: *To measure the effective use of safe work procedures and accident prevention programs.*

NOTE: this measure has been changed to injuries "per 100 employee-years" from "per 1 million- employee hours" (to be consistent with WCB reporting requirements).

3 Year Projection:

It is expected that the joint management/union/ WCB plan being developed will reduce the Corporation's injury rate in years 2 and 3. Improvement targets are 10% in year 1, 5% in years 2 and 3.



Owner: *EVP, Operations and Customer Services*

BC FERRIES

2. Safety Measures

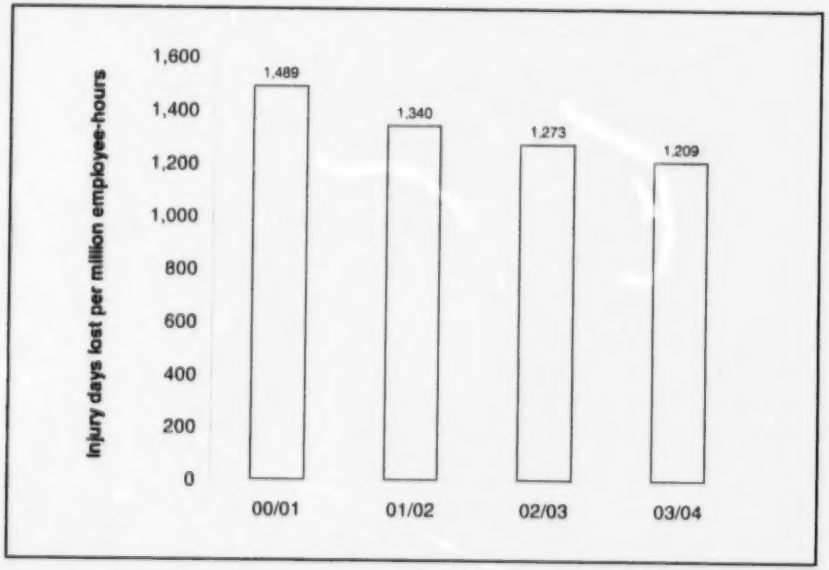
b. Employee Injury Severity Rate

Rationale/Methodology: *To measure the effective use of safe work procedures and return-to-work programs.*

This measure is a standard WCB reporting requirement and is calculated as the injury days lost per million employee hours during the reporting period.

3 Year Projection:

It is expected that the joint management/union/ WCB plan being developed will reduce the Corporation's injury severity rate in years 2 and 3. Targets are 10% in year 1, and 5% in years 2 and 3.



Owner: *EVP, Operations and Customer Services*

BC FERRIES

2. Safety Measures

c. Passengers Injury and Injury-related Claims

Rationale/Methodology: *To measure the Corporation's success in minimizing safety risks to the passengers.*

3 Year Projection:

BC Ferries is working to develop a more accurate injury-related claims database. Targets for this measure are under development.

Owner: *EVP, Operations and Customer Services*

BC FERRIES

3. Financial Measures

a. Operating Margins - Mainland Services

Rationale/Methodology: *To measure margins based on revenue types:*

- *operating margins (toll revenues minus operating expenses)*
- *gross catering margins (catering revenue minus cost of goods sold)*

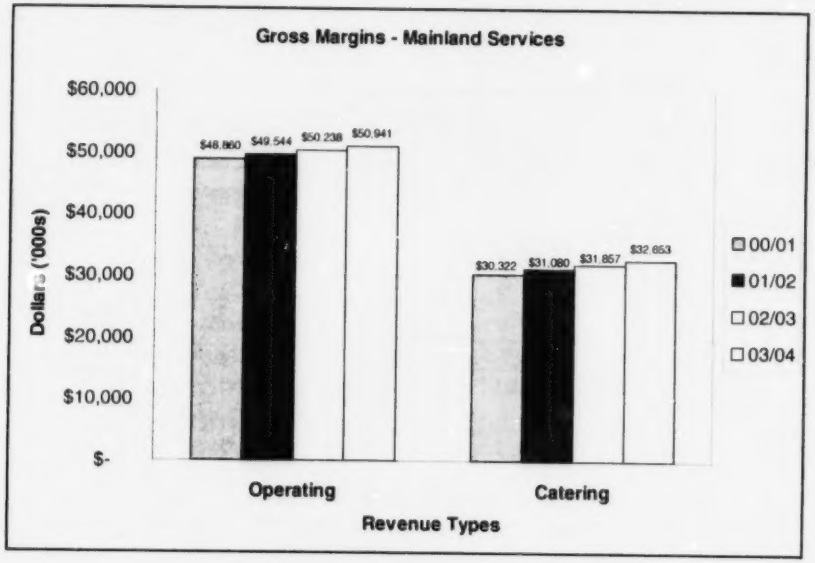
3 Year Projection:

Operating Margins

Operating margins are expected to increase over the next few years as traffic begins to increase with no change in schedule.

Gross Catering Margins

Catering margins are expected to improve due to the passenger accommodation updates currently scheduled for five mainland services ships. As a result, it is expected that we will see a return of approximately 2.5% increase in catering revenue each year for the next three years.



Owner: *EVP, Operations and Customer Services*

BC FERRIES

3. Financial Measures

b. Operating Margins - Inter-Island Services

Rationale/Methodology: *To measure margins based on revenue types:*

- *operating margins (toll revenues minus operating expenses)*
- *gross catering margins (catering revenue minus cost of goods sold)*

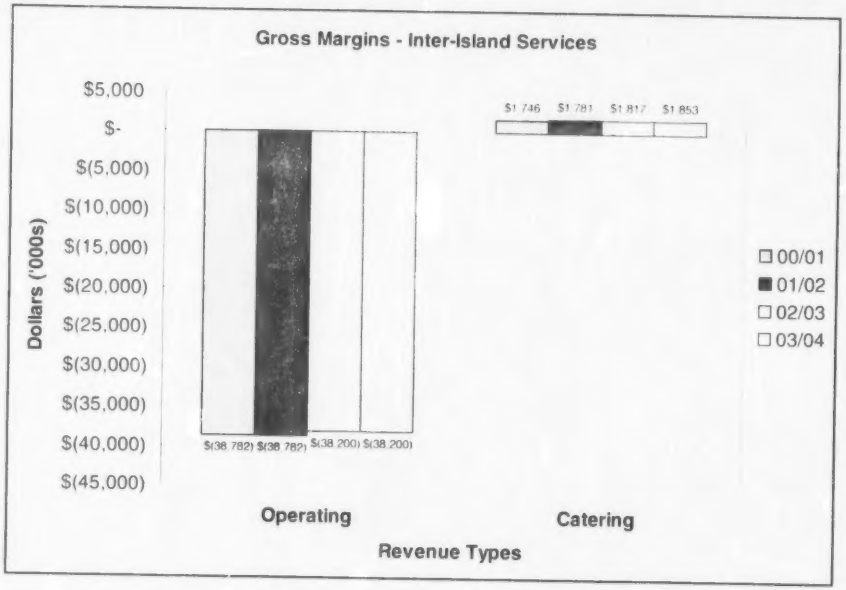
3 Year Projection:

Operating Margins

Operating margins are expected to increase slightly in year 2 and then stabilize.

Gross Catering Margins

We expect catering gross margins to improve about 2% due to new initiatives and increased per passenger-spend amounts.



Owner: *EVP, Operations and Customer Services*

BC FERRIES

3. Financial Measures

c. Operating Margins - Northern Services

Rationale/Methodology: *To measure margins based on revenue types:*

- *operating margins (toll revenues minus operating expenses)*
- *gross catering margins (catering revenue minus cost of goods sold)*

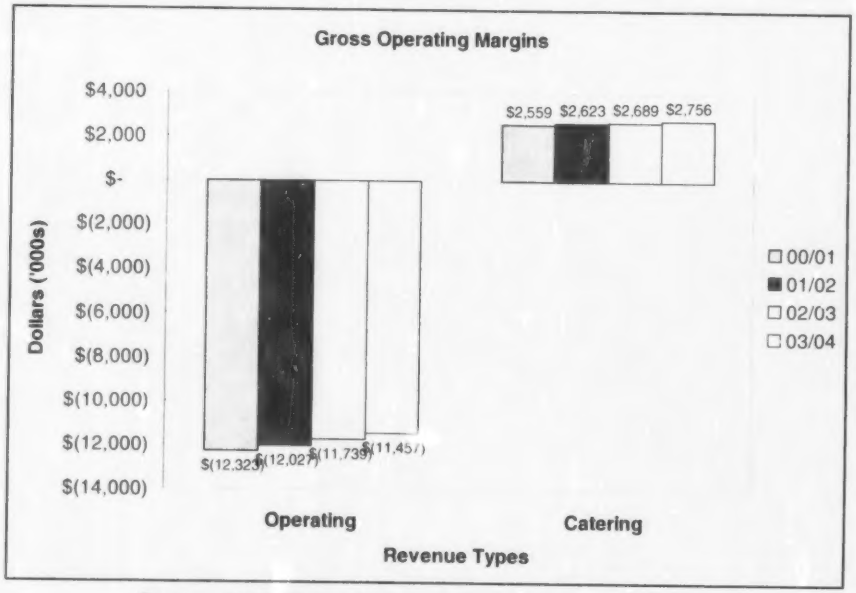
3 Year Projection:

Operating Margins

Although the operating margins are expected to improve over the next two years as ships are upgraded, this measure does not contemplate the replacement of the Queen of Chilliwack on Route 40, which requires further analysis. Changing the current vessel on Route 40 could significantly alter the operating margin in the North.

Gross Catering Margins

We expect catering gross margins to improve due to new initiatives (such as refurbishment of northern vessels and retail improvements), as well as increased per passenger-spend amounts. As a result, it is expected that we will see a return of approximately 2.5% increase in catering revenue each year for the next three years.



Owner: *EVP, Operations and Customer Services*

BC FERRIES

4. Human Resources Measures

a. Rate of Absenteeism - Sick Leave

Rationale/Methodology: *To identify absenteeism trends. This measure is intended to track and understand absenteeism trends for regular and casual employees. Currently, short-term illness hours are calculated in this measure.*

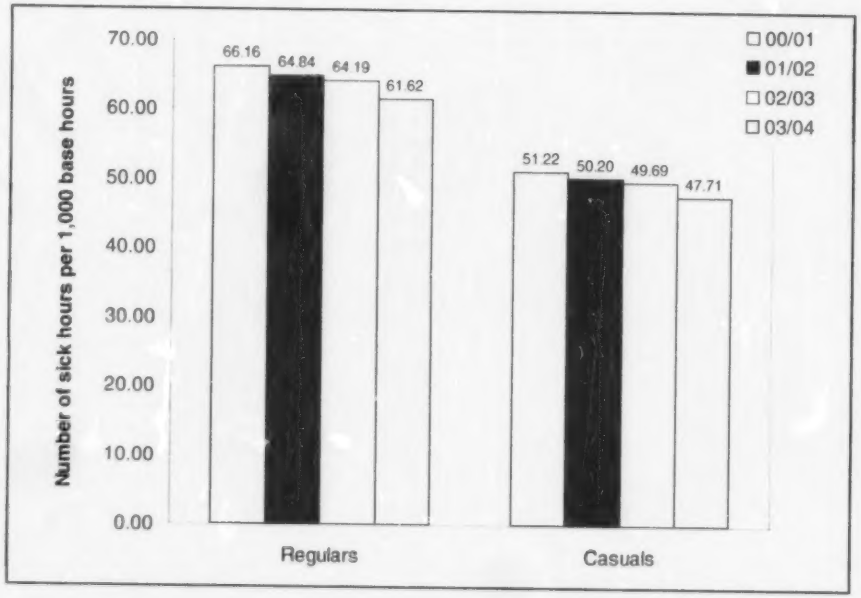
This measure is calculated as the number of sick hours per 1000 labour productive hours of bargaining unit employees.

3 Year Projection:

Year 1 and 2 should improve slightly (2% in year 1 and 1% in year 2) due to current programs continuing and the implementation of the Return to Work Program.

Year 3 should show a a significant improvement (~4%) due to the Corporation's effort to reduce the duration and impact of health-related absences by introducing the new management information system for Human Resources, Finances and Crewing.

Causal sick leave, which rose sharply when sick benefits were extended to casual employees, is expected to level off and then decrease.



Owner: *Vice President, Human Resources*

BC FERRIES

5. Customer Services Measures

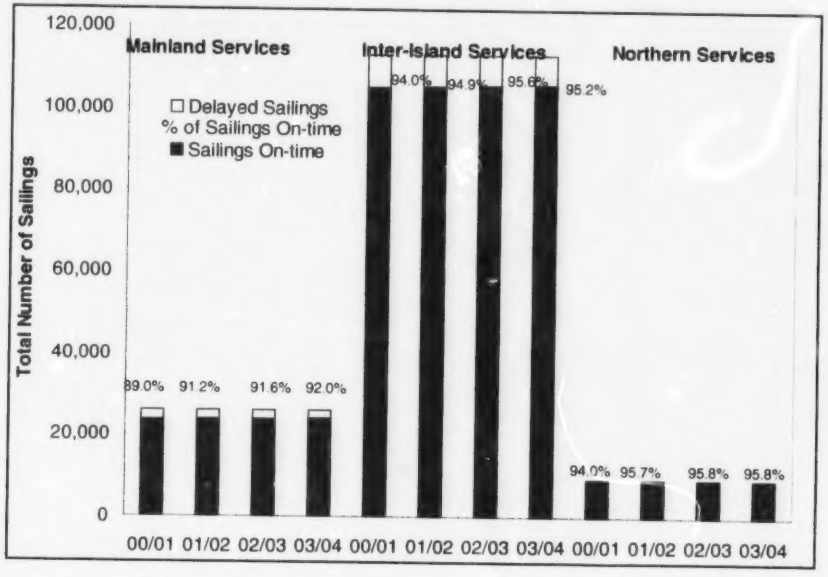
a. On-time Sailing Performance

Rationale/Methodology: *To measure the number of sailings departing within 20 minutes of schedule. This measures the number of times during the reporting period that a departure was made within 20 minutes of scheduled departure. This is expressed as a percentage of the total number of sailings.*

3 Year Projection:

There should be a slight improvement to on-time sailings in the next three years due to implementation of the maintenance management program and increased expenditure on extraordinary maintenance.

However, as more traffic is being carried on the same number of vessels, it is uncertain whether these savings will be immediately realized.



Owner: *EVP, Operations and Customer Services*

BC FERRIES

5. Customer Services Measures

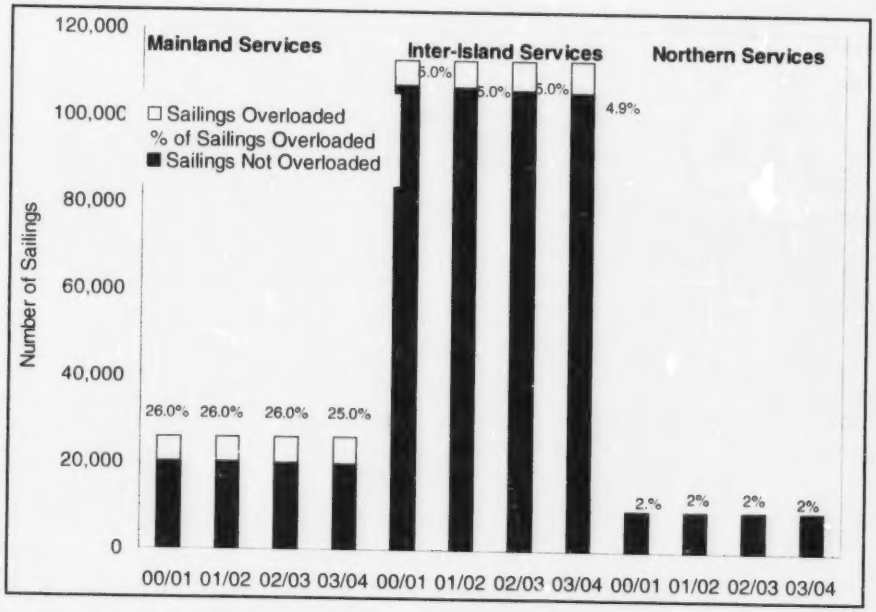
b. Overload Sailings

Rationale/Methodology: *To measure the Corporation's success (i.e. anticipating load requirements and making maximum use of load space) in matching customer demands with scheduled service.*

This measures the number of times during the period that a departure was made where there were vehicles or passengers that remained unloaded at departure; full capacity had already been achieved. This is expressed as a percentage of the total number of departures.

3 Year Projection:

Overloaded sailing percentages should virtually be constant due to capacity adjustments to match traffic where discretionary sailings are available. Improvements will be sought in customer information, and reservation services will be extended.



Owner: *EVP, Operations and Customer Services*

BC FERRIES

5. Customer Services Measures

c. Cancelled Sailings

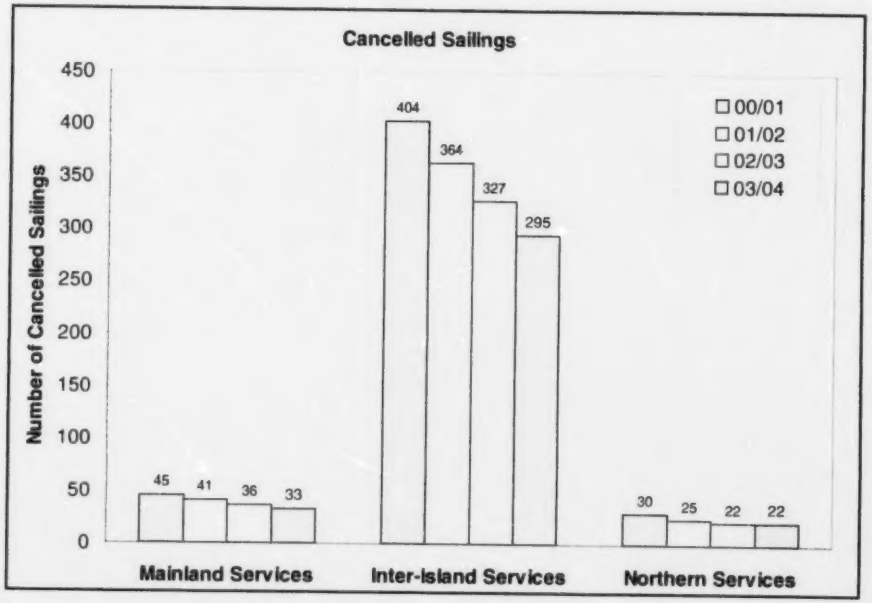
Rationale/Methodology: *To measure the number of cancelled sailings.*

This measures the number of times during the reporting period that a scheduled sailing was cancelled. This is expressed as a percentage of the total number of sailings.

Variance Analysis:

The number of cancelled sailings due to mechanical problems in MS is about 78% and in IIS about 68%, while in NS it is about 40%. While the number of cancellations due to weather related problems in NS is about 50%, weather plays a much less significant role in IIS and MS sailing cancellations (~15% in each region).

With the introduction of the new maintenance management program and increased maintenance expenditure, both MS and IIS should show a benefit with a reduction in the number of sailing cancellations due to mechanical problems. However, we aren't likely to see a significant drop in the number of cancelled sailings in the NS as cancellations are largely due to weather problems and therefore unpredictable.



Owner: *EVP, Operations and Customer Services*

BC FERRIES